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(draft)LDC Debt: A Perspective on 1984 and Some Thoughts on the Future

Last year was a watershed in the LDC debt crisis. Discussions were held with several large debtors which resulted in programs for refinancing coupled with tough austerity measures to get foreign and domestic accounts in order. For some debtors, Mexico for example, the crisis reached a new state; import growth showed modest gains after a steep decline in 1983 indicating that recovery, albeit modest, was underway. In these countries, the battle has shifted to implementing domestic austerity measures, fighting inflation, and holding together the political fabric in the face of these tough new measures. Overall, I think we can say that the case by case approach to dealing with the crisis has worked and, given proper conditions, can bring the crisis to a successful resolution.

Continued success of this approach depends heavily on developed country economic recovery, however. A pause in the recovery would put a severe strain on those agreements already reached and make new agreements even more difficult. Even if we avoid a pause in the economic upturn, recovery from the debt crisis will be a slow process. A rapid expansion of exports would be necessary to relieve economic conditions in many LDC debtors and global economic trends are not favorable to bring this about. Thus the drastically lower levels of imports, economic activity, and per capita expenditures in these countries will remain for some time.

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The key intelligence challenge for the future will be to monitor the domestic situations in those countries that have undertaken rescheduling. Political dissatisfaction with severe and continuing austerity is growing in the debtor countries, as is resistance to IMF-sponsored programs designed to aid also in longer-term restructuring. These reactions vary greatly among countries and are likely to become even stronger in the future, even as the economies begin to improve.

The willingness of the key institutions in the creditor countries--including banks, governments, and regulatory agencies--to provide or support continuing assistance to the debtor countries, is being linked increasingly to the implementation of IMF-sponsored austerity programs. Although these linkages provide a certain policy coherence, they also impose a great burden on the IMF and tend to reduce its flexibility in dealing with countries with vastly different economic and political circumstances. While specific countries' problems call for great flexibility, the IMF must be concerned about its credibility because of the impact on all its other programs. So far the IMF has done an excellent job steering a difficult course between competing objectives.

If ways are not found to ease pressure on the IMF, there is high risk that likely future confrontations between debtors and creditors (--with the most likely near-term confrontation being with Argentina--) cannot be satisfactorily resolved.

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NIC Work on the Debt Crisis in 1984

The NIC worked closely with OGI and the regional offices to help put the debt crisis in political/economic perspective. In addition to producing several ad hoc memoranda such as "The Debt Problem Revisited" which was prepared by the NIO/Econ for senior policy officials, the NIC oversaw production of a major Estimate "The Political Repercussions of the Debt Crisis in Major LDCs." The Estimate reviewed the current situation and  the potential for a successful resolution of the debt crisis in major debtor countries.

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5 November 1984.

NOTE FOR: All National Intelligence Officers  
FROM: Hal Ford, NIO/AL  
SUBJECT: NIC Contribution to DCI's Upcoming Annual  
Report to the Congress

1. Each year about this time the NIC assists the IC Staff in preparing the DCI's (all-source) Annual Report to the Congress. So, as outlined below, we are tasked once again. The Report (for 1984) will be published 1 February 1985. The project officer is [ ] (ICS).

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2. The Report's purpose is to provide an accounting of the Intelligence Community's support to US policy objectives in order to provide Congress with an appreciation of how the Community's enhanced capabilities have been utilized. The particular focus of the Report this time, [ ] is to be "the substantive and operational accomplishments of 1984, presented in the context of the major substantive issues of the year."

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3. The NIC is on the hook to provide drafts on the following:

a. The Substantive context into which specific examples of analytical and collection contributions (to IC Staff) will be integrated. This means that the NIC is to prepare contributions which set out 1984's substantive contextual picture for each of the issue items in the Report's following outline:

--Priority Issues of Crisis Avoidance/Crisis Management

- o Lebanon/Syria/Israel
- o El Salvador/Nicaragua
- o Pakistan/Afghanistan/India
- o Greece/Turkey/Cyprus
- o Other principal crises in 1984.